



State of Idaho

Legislative Services Office

Management Report

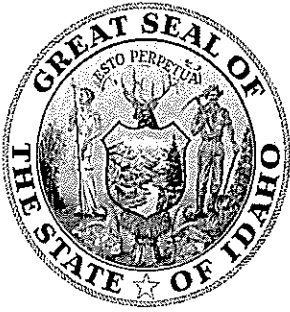
A communication to the Joint Finance-Appropriations Committee

IDAHO DEPARTMENT OF INSURANCE

FY 2008, 2009, AND 2010

Report IC28010
Date Issued: April 29, 2011

Serving Idaho's Citizen Legislature



Don H. Berg, Manager

Idaho Legislative Services Office
Legislative Audits Division

IDAHO DEPARTMENT
OF INSURANCE

SUMMARY

PURPOSE OF MANAGEMENT REVIEW

We conducted a management review of the Idaho Department of Insurance covering the fiscal years ended June 30, 2008, 2009, and 2010. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

CONCLUSION

We did not identify any significant conditions or weaknesses in the general administrative and accounting controls of the Department.

FINDINGS AND RECOMMENDATIONS

There are no findings and recommendations in this report.

PRIOR FINDINGS AND RECOMMENDATIONS

There were no findings and recommendations in the prior report.

AGENCY RESPONSE

The Department has reviewed the report and is in general agreement with its contents.

FINANCIAL INFORMATION

The following financial data is for informational purposes only.

IDAHO DEPARTMENT OF INSURANCE – FISCAL YEAR 2010

Fund	Fund Number	Beginning Cash	Plus Receipts	Plus Net Transfers	Less Disbursements	Ending Cash
Idaho Immun. Dedicated Vaccine Fund	0172	\$0	\$2,475,660	(\$2,475,660)	\$0	\$0
State Reg. - Insurance Admin. Fund	0229-10	7,774,918	72,986,268	(66,961,434)	5,256,554	8,543,198
State Reg. - St. Fire Marshall Adm. Fund	0229-11	1,567,552	892,279	0	832,273	1,627,558
State Reg. - Ind. High Risk Reinsurance	0229-13	0	0	3,130,776	3,130,776	0
Federal Grants Fund	0348	642	479,750	0	421,955	58,437
Miscellaneous Revenue Fund	0349	335	0	0	335	0
Miscellaneous Revenue Reduced Cig.	0349-35	107,000	15,000	0	0	122,000
Insurance Refund	0515	40,000	0	5,895,814	5,895,814	40,000
Insurance Liquidation Trust Fund	0520	4,807,892	43,623	0	3,533,683	1,317,832
Insurance Insolvency Admin. Fund	0523	100,000	0	0	0	100,000
TOTALS		\$14,398,339	\$76,892,580	(\$60,410,504)	\$19,071,390	\$11,809,025

OTHER INFORMATION

We discussed other issues which, if addressed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Idaho Department of Insurance and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, William "Bill" Deal, and his staff.

ASSIGNED STAFF

Chris Farnsworth, CPA, Managing Auditor
J.E. Bowden, CPA, CFE, In-Charge Auditor
Brian Butkus, Staff Auditor

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AGENCY RESPONSE

State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

April 19, 2011

Mr. Don Berg, CGFM
Division Manager, Legislative Audits
Legislative Services Office
Statehouse Mail

Don:

The Director and I have reviewed the draft of our audit for the years 2008-2010. We are in general agreement with the audit content and thus have no comments for insertion.

We appreciated the professionalism and thoroughness of your staff. Their efforts have helped us to identify some areas for improvement that we hope will enhance our internal controls or efficiency.

Cordially,

A handwritten signature in black ink, reading "Renee L. Iverson". The signature is fluid and cursive, with the first name "Renee" being more prominent and stylized than the last name "Iverson".

Renee L. Iverson
Fiscal Officer

Cc: William "Bill" Deal, Director
Chris Farnsworth, LSO
JE Bowden, LSO
Brian Butkus, LSO

APPENDIX

HISTORY

State regulation of Idaho's insurance business began in 1901. In 1961, the present Department of Insurance was created and a commissioner of insurance designated. The Department of Insurance is created in Chapter 2, Title 41 of the Idaho Code.

When the executive branch of State government was reorganized in 1974, the Department of Insurance became one of 20 major departments included under the executive branch and the title of "commissioner" was changed to "director." The director is appointed by the Governor, subject to confirmation by the State Senate.

PURPOSE

The purpose of the Department of Insurance is to administer Idaho insurance laws and regulations, to protect the interest of the public in all insurance transactions, and to provide safety and stability of insurance institutions through regulations. Other responsibilities include examining various insurance companies for financial soundness, testing and licensing agents, reviewing insurance rates and policy forms, responding to inquiries and complaints from the public and insurance industry, providing consumer information through the Senior Health Insurance Benefits Advisor (SHIBA) program, and collecting insurance premium taxes.

In 1982, the State adopted the Uniform Fire Code and established a new division within the Department of Insurance entitled Arson, Fire, and Fraud. Currently, the division is known as the State Fire Marshal. This division is charged with enforcing the fire code, promoting fire prevention, and investigating alleged cases of arson and fraud. The division coordinates and participates in an integrated statewide system designed to protect human life from fire and explosions through fire prevention and investigation of fires. The program includes fire prevention activities; arson investigations; and operation of various statistical systems, including the Idaho Fire Incident Reporting System.

As of June 2010, the Department of Insurance regulates 16 domestic insurance companies. These companies must be examined at least once every five years. The Department also regulates 1,428 foreign insurance companies authorized to do business in Idaho. The director may accept examination reports prepared by other states that apply to foreign insurance companies doing business in more than one state. The National Association of Insurance Commissioners has adopted these examination procedures.

ORGANIZATION

The Department was authorized 75 full-time positions for fiscal year 2010, with additional contracts for financial examiners and actuarial services. The Insurance Regulation Program consists of the following two bureaus.

Company Activities Bureau

This bureau monitors the financial condition of all insurance entities conducting business in the State of Idaho to ensure compliance with Idaho law and that each company meets the financial obligations of its policyholders. The bureau also reviews insurance policy rates and forms and collects and audits all insurance premium tax and fee returns.

Consumer Services Bureau

This bureau licenses and administers continuing education programs for insurance agents, brokers, insurance counselors, third-party administrators, adjusters, and managing general agents. The bureau analyzes consumer and industry complaints and provides assistance to consumers, the insurance industry, and other law enforcement agencies on matters involving insurance contracts and potential violations of the insurance code. Information, counseling, and assistance are provided to Idaho's senior citizens through a network of senior citizen volunteers and a toll free telephone number.

FUNDING

The Department is funded by the Insurance Administration Fund and the Arson, Fire and Fraud Fund, both of which are special revenue funds. Revenues are received from insurance company continuation fees, producer and other license fees, and other miscellaneous fees.

Following is a description of the Department's funding sources and uses:

Idaho Immunization Dedicated Vaccine Fund (0172)

This fund receives payments from insurance companies based on assessments from the Idaho Immunization Assessment Board. The money received by the Department is then transferred directly to the Department of Health and Welfare to provide a supplemental funding source for the Idaho immunization program.

Insurance Administration Fund (0229-10)

This fund receives premium tax, fees, licenses, and miscellaneous charges assessed on the insurance industry. Premium taxes are transferred to the General Fund on a monthly basis. The fees, licenses, and miscellaneous charges are used for the operating expenses of the Department's Insurance Regulation Program. The amount of fund balance that exceeds the current year's appropriation by twenty five percent (25%) or more (plus any encumbrances) is transferred to the General Fund.

State Fire Marshal Administration Fund (0229-11)

This fund receives penalties, a portion of insurers' continuation fees, and money derived from other sources for arson or fraud investigation or fire prevention. This fund is used to pay the expenses of the State Fire Marshal program, Idaho insurance code enforcement, investigation of alleged cases of arson or fraud, and related alleged violations of Idaho law.

Individual High Risk Reinsurance Pool (0229-13)

This fund receives one-fourth (25%) of the excess amount over \$45 million that remains from insurance premium tax revenues after all statutory deductions have been made. The money is then used to pay the costs associated with providing health insurance coverage to high risk individuals regardless of health status or claims experience.

Federal Fund (0348)

These federal grant funds are used to partially pay expenses related to advising senior citizens who have health insurance questions at State fairs and medical conferences. The expenses include payroll costs, travel, and other miscellaneous expenses.

Miscellaneous Revenue Fund (0349)

This fund receives money from the Idaho Commission on Aging, which is used to assist seniors in dealing with Medicare fraud.

Reduced Cigarette Ignition Propensity and Firefighter Protection Act Fund (0349-35)

This fund receives funding through penalties assessed under Idaho Code, Section 39-8906. The funds are to be used by the State Fire Marshal to support fire safety and prevention programs.

Insurance Refund Fund (0515)

This fund receives up to twenty percent (20%) of premium taxes, fines, and penalties collected. The money is used to repay overpayments of premium taxes, fines, penalties, or other erroneous receipts. The balance in the fund in excess of \$40,000 is transferred to the General Fund at the end of each fiscal year.

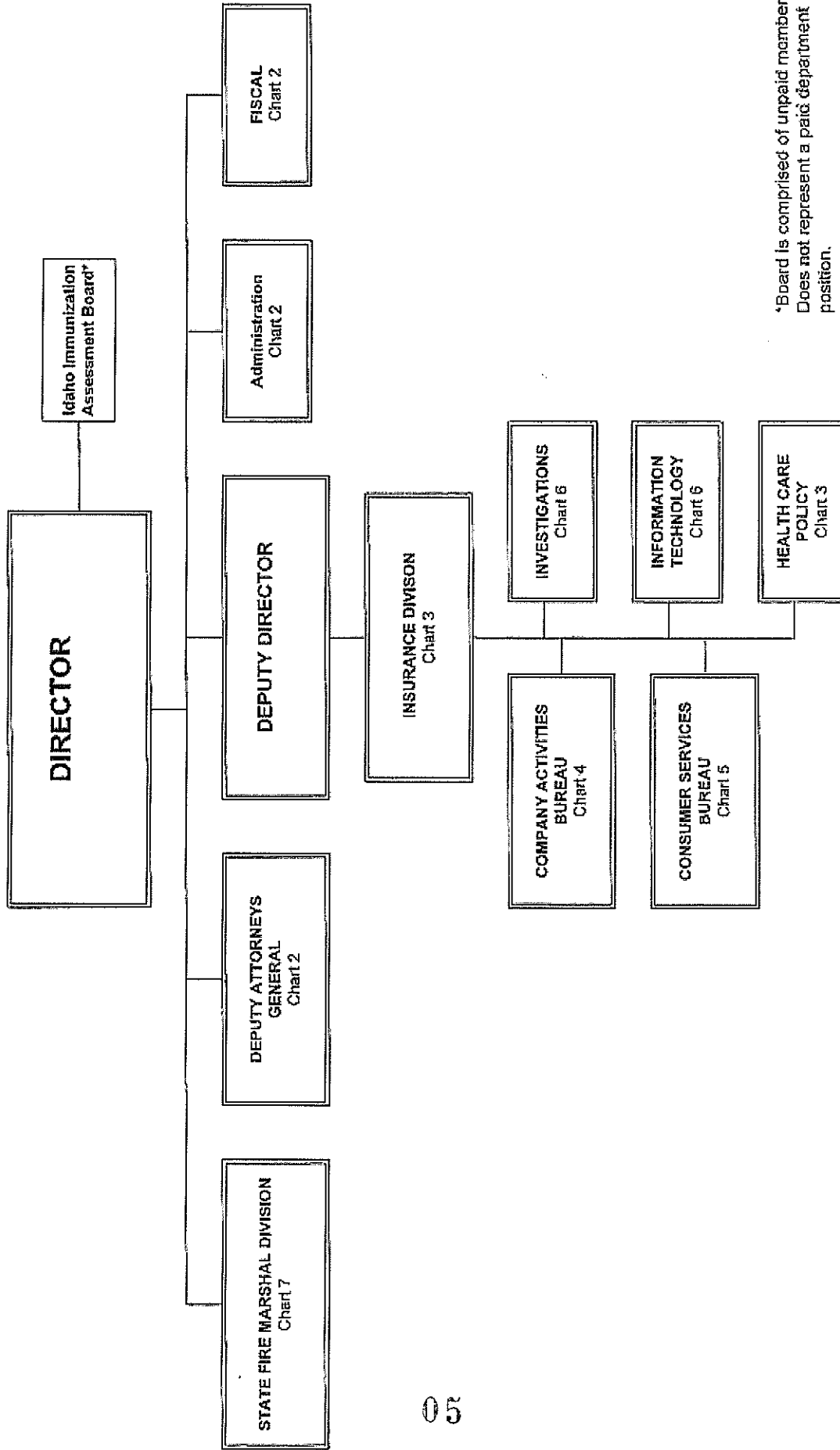
Insurance Liquidation Trust Fund (0520)

This fund receives the monetary assets of an insurer being liquidated. Individual accounts are established for each company in liquidation. Funds are used to liquidate the assets and pay claims for an insurer under the general supervision of the court. These funds are not State money.

Insurance Insolvency Administration Fund (0523)

This fund receives that portion of premium taxes necessary to cover administrative costs incurred when insurance companies are placed in receivership, to the extent that such costs cannot be satisfied from the assets of the companies. The funds are used to pay administrative expenses (not to exceed \$200,000 in any fiscal year) incurred by the Department in discharging its duties in rehabilitating or liquidating insurance companies where assets of such companies have been totally exhausted. A minimum balance of \$100,000 is maintained in this fund as of June 30 each year.

State of Idaho DEPARTMENT OF INSURANCE



*Board is comprised of unpaid members.
Does not represent a paid department position.